COMMITTEE WORKSHOP

BEFORE THE

CALIFORNIA ENERGY RESOURCES CONSERVATION

AND DEVELOPMENT COMMISSION

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In the Matter of:                  )
                                   )
Informational Proceeding and       )
Preparation of the 2005 Integrated) Docket No.
Energy Policy Report               ) 04-IEP-01
                                   )
Re: Electricity Demand and Retail  )
    Price Data Requirements        )
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CALIFORNIA ENERGY COMMISSION

HEARING ROOM A

1516 NINTH STREET

SACRAMENTO, CALIFORNIA

TUESDAY, SEPTEMBER 21, 2004

9:39 A.M.

Reported by:
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Contract No. 150-04-002

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P R O C E E D I N G S

9:39 a.m.

MR. KENNEDY: Good morning, everyone. Welcome to the second day of our workshop on electricity demand and retail price data requirements.

I want to thank everyone who was able to find us yesterday, as we had to move across the street with the building being closed; and apologize to anyone who wasn't able to join us, particularly the folks on webmail because --

COMMISSIONER BOYD: Obviously, Kevin, I couldn't find you.

MR. KENNEDY: That's right, you were hiding in --

COMMISSIONER BOYD: Hopefully you said I was in L.A. for a power plant hearing, but anyway.

MR. KENNEDY: That's right. And today's meeting is being webcast. We had intended to webcast yesterday's meeting, as well. And I apologize to anyone out there listening on the web who had intended to participate.

We had had problems with the building here at the Energy Commission due to some flooding on Sunday. So nothing was available. We had to find a space across the street and our server was down, so we weren't able to do any webcasting.

I don't know whether the Commissioners want to make any initial remarks before we get started today? Okay.

At the risk of boring the folks who actually managed to join us yesterday, I'm actually going to go through pretty much the same presentation that I did yesterday, providing some degree of background and overview of where we're going, and how what we're doing today fits into the larger picture of the Integrated Energy Policy Report.

My name is Kevin Kennedy, and I'm the Staff Program Manager for this cycle of the Integrated Energy Policy Report. Today's portion of the workshop we're focusing on the electricity retail price data requirements.

In terms of the hearing overview we're going to be looking at how the energy report data needs -- how the data needs fit into the larger picture of what we're doing on the energy report. We'll have a brief overview of staff's proposal for data collection on retail price.

We'll also have the opportunity for

review of and comments on the proposed forms and instructions. So that's the general overview for today's workshop.

Putting the data needs into context, there's two main purposes that the energy report is supposed to provide for the state. First, is a need for an integrated policy development on energy matters.

Quoting from the Public Resources Code, "The Integrated Energy Policy Report shall present policy recommendations based on an indepth and integrated analysis of the most current and pressing issues facing the state." So, we need to be looking broadly at the issues facing the state.

In addition to developing the integrated policy recommendations, another purpose is for the energy report to develop a common information base for all of the various parties and agencies who need to make decisions relating to the state's energy policy.

Again, quoting from the Public Resources Code, "For the purpose of insuring consistency in the underlying information that forms the foundation of energy policies decisions affecting the state, those entities" and what's meant by those entities here the law calls out eight specific agencies with some degree of responsibility in terms of energy decisionmaking.

As we approach the energy report cycle this time we are taking a fairly broad view of which entities we are hoping will make use of the common information base beyond just those eight. But as the law says, "Those entities shall carry out their energy-related duties and responsibilities based upon the information and analyses contained in this report."

One thing that we recognize here at the Energy Commission is that if we expect other agencies and other parties more broadly to make use of the information that's developed during the energy report process, we need to be very aware of and adapt what we do in the energy report process to meet the needs of the other agencies and other players.

So, while in some ways this section of the law can be seen as putting some degree of burden on other agencies to make use of what we develop, we very much view it here at the Energy Commission as also putting what may be a larger burden on us to make sure that what we develop is actually useful for the purposes of other parties that we would expect to use the information.

One piece of what we're doing within the energy report process is to conduct assessments and forecasts. And what we're here about today is to talk about some of the data and information that the Energy Commission Staff need in order to do some of those assessments and forecasts.

Again, quoting from the Public Resources Code, we are given the authority, as it says, "To perform these assessments and forecasts, the Commission may require submission of demand forecasts, resource plans, market assessments and related outlooks from electric and natural gas utilities, transportation fuel and technology suppliers and other market participants."

So what we're looking at today is one piece of the data and information that we are looking to require other parties to submit as part of this process.

Coming back to sort of the broader purpose of the energy report, one of the key aspects is the need for statewide coordination in what we're doing. The planning process needs to consider the entire state and region, including the investor-owned utilities, the municipal utilities, the electricity service providers and other parties.

We're trying to make sure that what we're looking at in terms of energy policy recommendations actually take into consideration all of the players.

It also, the planning needs to integrate considerations of load growth, load management, generation planning and transmission planning.

And it occurs to me as I'm going through this that the copies that you have, the hard copies, are actually slightly different than what you're seeing on the overheads. One of the things I had forgotten I still needed to do, with the power outage in the building yesterday, was to get the final version of the presentation on the common drive. So this is actually a slightly earlier draft that I'm walking through as we speak. So if you see small differences with the printed versions that were available, that's the reason for that.

A key part of the statewide coordination has to do with the coordination that we are doing in the electricity and natural gas forecast, with the procurement process at the PUC, and the transmission grid planning process at the California ISO.

I don't believe we have folks from the PUC or ISO here today, but we did have representatives yesterday, both of whom were speaking very much of the shared commitment across all three organizations; to make sure that the energy report process, the procurement process and the transmission grid planning process at the ISO fit together as we move forward on ongoing cycles. For example, the 2005 energy report information we expect to feed into the 2006 procurement process.

To this end, or related to this, President Peevey of the PUC issued a ruling in the procurement proceeding last week that speaks very much of the expectation on his part that the energy report proceeding will feed information directly into the procurement process going forward.

And spelled out some of the expectations on the PUC side in terms of how those entities under their jurisdiction should expect things to play out in the PUC in the 2006 procurement proceeding.

And the expectation that those parties should be looking to the Energy Commission's energy report process as where some of the key issues and discussions will be taking place. There are copies of the ruling available outside if people haven't seen that already.

Within that context, the energy report process, we would expect to estimate the need for resource additions, evaluate policies and recommend appropriate resource strategies.

The CPUC's procurement process would then produce IOU-specific procurement plans, require competitive generation solicitations, incorporate needed transmission upgrades and guide preferred resource acquisition to insure resource adequacy on a biennial cycle starting in 2006.

And then the California ISO's grid planning process would receive information from both the PUC and the Energy Commission's processes; integrate that information into a comprehensive view for the California ISO controlled grid; and then develop project-specific set of preferred transmission projects.

One of the things that's extremely important about the Energy Commission's energy report process is that this is a proceeding that provides a forum for consideration of all of the statewide and regional issues. Where the PUC and the ISO are looking at, in the case of the PUC, those entities under their jurisdiction; for the ISO, the members of the ISO controlled grid.

We also have an interest in making sure that as we try to develop integrated statewide policy we're looking beyond that very important set of players, but we are also looking to include other players such as municipal utilities and others as we consider the statewide needs.

One aspect of what we're doing in terms particularly of the load forecast for feeding the ISO transmission process, we recognize the importance of having consistent disaggregated load forecast information. So that's something that staff here at the Energy Commission and staff at the ISO are going to be working on; making sure that the load forecast developed in the 2005 energy report process can be made consistent with the level of disaggregation that the ISO needs for the transmission planning process.

We'll also be taking a look in the energy report process at a number of environmental issues. The energy report explicitly includes evaluation of the environmental performance of the electricity system; and we need to find good ways of including consideration of environmental impacts as part of the planning and procurement process as we move forward.

In terms of the data collection efforts that we're undergoing for this proceeding, this workshop, yesterday and today, is the first in a series that will review staff's data collection proposals for the 2005 energy report proceeding.

The future workshops will focus on proposals relating to data on electricity supply, on natural gas, transmission, environmental impacts, and transportation fuels.

We have a very particular format in terms of how we're asking for information, how we're presenting it at the workshop today. Because the types of information needed and the processes that we're expecting to follow moving forward on those may be a bit different, say, on transportation fuels or some of the other areas. You know, it's not necessarily the case that each of the workshops will follow this particular pattern where we have, you know, very specific forms and instructions that we're walking through.

But we will be looking in all of these areas at workshops, laying out the general question of what staff is expected to do in our analysis moving forward; what information we need in order to be able to conduct that analysis; and then how we propose to get that information and be able to complete our efforts.

Next steps in terms of this particular workshop, after the workshop and review of written comments the Committee will issue an order. We expect probably in the next few weeks or a month directing parties to submit certain data and analyses.

As part of that, under direction of the Committee, staff will prepare a revised set of forms and instructions that will accompany that order. And the order will, of course, include filing deadlines.

Moving beyond that in terms of the longer term schedule, we would expect to see the load forecasts coming in early next. We would expect hearings most likely in a March timeframe on the overall electricity and natural gas forecast. And moving from there to preparation, under Committee direction, of more specific load forecasts that would be considered for Commission adoption. And some degree of refresh of those forecasts in the fall.

One of the things that we're concerned about, as we're trying to supply information for the 2006 procurement process, is to make sure that the load forecast information is not too stale as it goes into that process.

In terms of the plan for today, staff will provide overview of the analyses we plan to conduct and how the data analyses we are requesting relate to those plans. We'll take questions and comments sort of on the general issues at that point.

Actually before that presentation if there are any sort of general overall comments or questions we'll take those right up front. And then sort of the presentation on what we're planning to do in the large sense. And then finally we'll walk through the forms and instructions. Again, the opportunity for comments and questions as we're walking through the forms and instructions.

At the end if anyone has any general

closing comments, we'll take those.

At this point I expect that this meeting will not go long enough to make it worthwhile to break for lunch, so my expectation is we'll sort of go through and probably be able to get everything done at the very least by very early in the afternoon. It's always a bit of a question mark, how much time in discussion that will be needed on any given topic, so we'll sort of see how that plays out.

So that's the end of my presentation, and if anyone has any questions or comments. One thing I forgot to mention at the beginning is that we do have a court reporter here today. We'll be making a transcript of this meeting and be posting that to the website.

One thing that's important because of that is if anyone does have questions and comments at any point, that you go up to the one of the microphones, make sure that it's on. We ask that you state your name and what organization you're with, if you're representing an organization. And the court reporter also always greatly appreciates it if you have a business card, if you can sort of drop one off with him as you go up to the microphone, or as you go back to your seat. That makes his job a lot easier.

So before we get into the specific presentation on the retail price aspects, are there any general questions or comments?

Okay, I guess in that case I can just hand it over to Ruben Tavares who will do the presentation on the retail price forecast.

MR. TAVARES: Good morning; my name is Ruben Tavares and I'm part of the staff of the California Energy Commission. Good to see you all here today.

What we are proposing, this is staff proposal of data request that we need to collect for forecasting retail electricity prices. Again, it's a staff proposal. We are accepting suggestions. This is the first time that we are collecting actually the data directly from the utilities, the ESPs and the municipal utilities. So any comments, suggestions are welcome.

We have about four items to discuss this morning in regards to the retail electricity prices. First of all, we wanted to describe why do we need to project electricity rate prices. Secondly, we wanted to explain what we have used in the past, as far as typical IOU customer, like residential, small commercial, medium commercial, industrial and agricultural customers for both IOU and municipal utilities.

In the past we haven't collected data for ESPs or community choice aggregators, but this time around we will.

The third item that we wanted to discuss is the present rates, how we use present rates as the basis for forecasting future electricity prices. And finally, we will go over through the projections, both of the generation portion of the rates, and also the nongeneration costs.

Why do we make electricity rate projections? Well, first of all, before we move, I wanted to define how we use rates. Rates, we use it as, you know, prices, when we talk about rates we are talking average revenue. That includes all the charges for the customers and all the costs for the utilities.

The methodology is still a work in progress, as any methodology, especially for forecasting. As you all know, probably 90, 95 percent of the time most projections are wrong. So we're working and wanted to perfect, as much as we can, our projections.

The electricity rates are an input to demand forecasts, and if you were here yesterday you probably heard that already. That's one of the main uses of the electricity rate projections.

We also use the Commission rate projections for developing the building standards. They have been used also for developing cost/ benefit analysis, energy efficiency and cogeneration projects. Even some of the state agencies have asked for electricity rate projections for estimated budgets. And obviously we have a lot of consultant calls all the time.

What is a typical customer. In the 2003 IEPR we developed what we call a typical customer. For instance, for residential we assume that the usage for a typical customer was about 500 kWh per month. Obviously each and every utility has a different definition of what a typical customer for residential, I mean residential, small commercial and so on.

So we have used actually an amended -- definition. And this time around we would like to have any kind of suggestions you have. For instance, Sacramento Municipal Utility District, the typical residential customer in this area actually consumes about 640, 650 kWh per month. So each and every utility is a little bit different.

Down south some utilities like Pasadena, they might be under 500 kWh per month. So we are open to any kind of suggestions you might have.

How do we have estimated this amounts. We actually have used some of the utilities' own submittals to FERC. We have used some of the load profiles that the utilities have posted on the web. And, again, we haven't collected regularly the data from the IOUs, the munis or any other utility. But this time around we would like to.

We have also used some rate schedules to represent a specific customer class. As you all know, utilities have numerous rate schedules. For instance, for residential PG&E has more than 20 rate schedules. In the past we had used only one rate schedule, for instance, for residential PG&E, and that's E-1 to represent the residential customer class.

And the reason we have done that is because, you know, in this rate schedules is where most of the consumption occurs. However, again, this time around we would like to expand it and consider more rate schedules in the, for instance, residential customer class and each and every customer class. And later on we'll describe the forms and instructions of all point, some of them.

In the case of municipal utilities, municipal utilities have usually fewer rate schedules than investor-owned utilities. And the staff had used some of its, in this table, to represent, again, customer classes. In the last IEPR we estimated rates for LADWP, SMUD, Burbank, Pasadena and Glendale. This time around we want to expand it to some of the other utilities as long as they have a load of about 200 or above, 200 megawatts.

And, again, the staff is going to evaluate these rate schedules for this IEPR. And we will again accept any kind of suggestions you might have.

Now, present rates. Again, present rates include all the current charges in the tariffs. We accumulate base charges, energy charges, any kind of transmission charges, distribution charges and so on, anything that is in the rate. And that is our basis for estimated future rates later on.

For example, for Edison, 2003, we have the average residential electricity rate of about 14 cents per kilowatt hour. And as you can see, we have transmission, distribution and so on, all the different charges that are listed in the rate schedule. We accumulate all of them and then we have a total of an average rate.

Those are the rates that we provide to the demand office for the demand forecast. Once in awhile they ask for a break-out of the different charges, so we would like to have more accurate estimation this time around.

In the case of municipal utilities we have a sample of LADWP 2003 average residential electricity rate; it's about 10.5 cents per kilowatt hour. And, again, municipals list -- each and every utility lists their charges in different ways.

It is hard for us to standardize any kind of a format to actually represent all the municipal utilities, all the IOUs. Even investor-owned utilities, they list their rate, their charges in a different manner. So we will work with you so that you can give us what you have, and we will accept any kind of suggestions, again.

Average present rates for other customer classes besides residential include any kind of charges like competition transmission charges, DWR bond charges, demand charges, customer charges and so on. So we do include all the different charges listed in the tariffs.

For instance, you know, PG&E includes reliability services in transmission. That's just one of the differences that, you know, many utilities have. Edison actually separates and lists reliability services into separate from the transmission charges.

Municipal utilities have, for instance, what they call a rate stabilization fund. Most of them had it actually a little bit before restructuring, and they had it for awhile. Some of them already have canceled it, and some still have it. So we will be asking for the data, we would like to have all of this kind of revenues and charges that they need to collect from the customers.

Now, projections. The next step after the present rates, we have projections. And we would like to have from the utilities, you know, the best estimate or the best assessment of the revenue requirements for the forecast period 2003 to 2015. Obviously, 2003 we will have already the actual revenues and the actual costs. 2004 to 2015 you might not. So we would like to have those for our estimates.

We would like to have the work papers and assumptions you made. So, we might have to do our own estimate, ourselves; either from inputs from other staff of the Energy Commission or any other kind of a scenario that the Commissioners might want to see.

All the load serving entities must also describe the methodology they use to allocate revenues among customer classes and rate schedules for the forecast period. As you know, the PUC, the California Public Utilities Commission, is moving back to using marginal cost methodologies to allocate revenues among customer classes in more rate schedules. I also heard that some municipal utilities are using that, too. So we would like to see what your best estimate of what you're planning to use.

Future rates will reflect generation and nongeneration costs allocated to customer classes.

And again, for generation costs it depends on the utility, but we would like to have all the revenue requirements for utility-retained generation, the nuclear, the hydro; DWR contracts, and again we will talk a little bit more about them; renewable portfolio standards; bilateral contracts and so on.

And for nongeneration costs, the transmission, distribution, nuclear decommissioning, trust transfer amount charges which expire in 2007, and again this is for IOUs. So we need those to estimate our future rates.

And that's what I have. If you have any questions I would be glad to answer.

Oh, it was very clear, huh? I'm glad.

UNIDENTIFIED SPEAKER: Are you going to (inaudible)?

MR. TAVARES: I'm sorry?

UNIDENTIFIED SPEAKER: Are you going to go over the forms?

MR. TAVARES: Yes, I am, later on.

MR. PRETTO: Mike Pretto, City of Santa Clara.

PRESIDING MEMBER GEESMAN: You might make certain that the green light is on --

MR. PRETTO: The green light is on.

PRESIDING MEMBER GEESMAN: Okay.

MR. PRETTO: I was here yesterday, so the reporter should have my card.

Just a comment on Santa Clara. We're a small utility; our peak load is -- historic peak load is about 450 megawatts. And the processes we go through in forecasting are, we don't go to nearly the detail that is implicit in your presentation. And just would like to be clear on that.

For example, we have a very simple rate structure. And on a forecast basis, for example, we don't forecast rates. We don't forecast revenues by class. For our purposes, on a forecast basis, don't need to do, on a future basis, an allocation of revenues to class and service.

Our business is much simpler; much more compact. We have a very small residential component, a relatively small commercial component. We do have a very large office industrial component in our sales structure.

But in terms of forecasting, because of the nature of our rates, we can forecast with some accuracy for our purposes on an aggregated basis and don't need to make these distinctions. Just wanted you to be aware of that.

MR. TAVARES: Yes, and we understand, you know, the data that we're asking is in an aggregated basis. Obviously we would like to see the workpapers, you know, how you got your estimates.

And I understand, you know, many do not forecast, or they say that they don't forecast, you know, rates in the future. I think we, as a staff, and again I'm talking for the staff, we are willing to accept any suggestions and talk to you guys so that we can get to an agreement on how we can best gather the data that we need.

MR. ALVAREZ: Manuel Alvarez, Southern California Edison. Ruben, I guess I just have a question. I think you're aware the revenue requirements are an artifact of regulatory policy and ratemaking, at least for the investor-owned utilities at the Public Utilities Commission. And they go out basically in a three-year cycle.

And so I'm kind of wondering, you know, where you feel that the longer term revenue requirements come from and where they get generated. Because basically we work through that revenue requirement cycle for ratemaking purposes, and so we know what the short term is.

But in terms of forecasting what kind of decisions are going to be made in the future and how that allocation is going to be done, it's not something that we actually forecast, per se.

So I'm just kind of curious of how you see that being accomplished.

MR. TAVARES: Yeah, we understand that, you know, the utilities, especially investor-owned utilities, go through the three-year cycle. In the first phase of the California Public Utilities Commission they submit their revenue requirements for it this year. And then on second phase they go for the revenue allocation and the rate assigned.

But, we're asking the utilities to do their best, you know, the best estimation they can. I think the utilities probably forecast what the rates are going to be in the five-, ten-year range, assuming, you know, you have to make some assumptions.

And again, it's very difficult to estimate the regulatory environment in the decisions of the PUC. But, given the costs and given the needs that the utility have, that's what we're asking for. So, --

MR. ALVAREZ: So I guess it's basically, you know, what assumptions you're willing to accept in terms of outside the ratemaking period.

MR. TAVARES: Well, again, as a business, and as a utility, you know, have to do business in the --, I'm pretty sure that investor-owned utilities and munis, they do have to see what the projections are, what they are looking at in the next probably ten years so they can compete. And that's what we're asking for.

MR. ALVAREZ: Right, but you're aware of the vagaries of the, you know, the ratemaking process and the regulatory policy decisions that will affect that, so that the question I have is then how much certainty can you put into those longer term rate forecasts.

MR. TAVARES: Well, as any forecast, I think there's a lot of uncertainties; and especially in the regulatory arena. I mean the same is true for the municipal utilities. I mean you never can predict what the board of directors of the munis are going to do.

Nevertheless, I think we will be focusing on the prediction for the cost and the revenue requirements for that.

MR. ALVAREZ: Thank you.

MR. KENNEDY: I think at this point, since it looks like there's no other general comments, we can just move straight on to the forms and instructions. Once we get that loaded up, Ruben will take it again.

MR. TAVARES: You have a second handout that describes the forms and instructions. It lists the data that we are requesting from the load serving entities.

Again, this is the first time that we are collecting data using forms to estimate retail electricity prices. As with any form, you know, some categories might not apply to some utilities, and some others are not listed. So we are asking you to actually provide us and suggest, you know, which categories -- which you include in your own specific data submittal.

The forms that we send out are forms 1.a through 1.c. Those apply to the investor-owned utilities. And, again, we took those, the data that we're requesting from those forms from the submittals of the IOUs to the California Public Utilities Commission. So we tried to mimic what you already provide for the general ratecases to the California Public Utilities Commission.

Forms 2.a through 2.c, they apply to municipal utilities and irrigation districts. And, again, each and every municipal utility is different. We understand that. But we must -- we provide those data lists mimicking, again, investor-owned utilities, but I think that you can -- you should be able to provide us with some categories that might be different, but will give us an idea of how to estimate the rates.

And energy service providers and community choice aggregators, we have only forms 3.a through 3.b. And that's just two forms. And we have never collected data directly from energy service providers. But this time around we will.

What have we done in the past. In order to estimate rates in the past we have used actually FERC information that the investor-owned utilities provide in the FERC form. We have used the California Public Utilities Commission public data for inputs to the rate forecast.

And the results haven't somehow

satisfactory. I mean we had some good feedback from the IOUs. This time around we're asking for revenue requirement categories, again similar to the phase two of the CPUC's general ratecase proceedings, you know, where the IOUs submit their proposals every three years.

Form 1.a in your package is asking for electricity by source. And the revenue requirement category like DWR contracts, renewables, transmission. This is for the unbundled customers. And you should have only one form a from each utility. That's for the total investor-owned utility.

Form 1.b, we are asking for electricity sales and revenue requirements per category. This is the allocation down to customer classes.

And form 1.c, again, the same electricity sales and revenue requirements down to the level of the rate schedule.

So the difference between 1.b and 1.c is just that 1.b asks for revenue allocations to customer classes, and 1.c to rate schedules.

We are asking for, again, historical allocations and revenue requirements for 2003, and for the forecast period 2004 to 2015. We are asking for aggregated amounts, and again, work papers.

The categories that are included in form 1.a are the DWR contracts. As I understand and I've seen some of the submittals to the PUC, you ask for revenue requirements for DWR contracts. Those are the must-take and the dispatchable portions of energy from DWR. And the total amount of revenue requirements including DWR administrative costs.

The second category is the utility-retained generation. Again, we are asking whatever you have submitted for nuclear regulatory requirements and allocations. QF contracts, and again, for the projection period we're asking for the goals according to -- by the CPUC decisions, for the hydro, whatever has been approved by the PUC already, and for 2003, and projections, and your own generation.

Renewable energy estimates for renewable portfolio standard and goals in the Energy Action Plan. We're asking for spot market prices and revenues to fill out the (inaudible).

We have separated energy efficiency programs from the public purpose programs.

Revenue requirements, we would like to see what your proposals are. We're asking for transmission revenues. Again, the ones that FERC has already adopted for 2003, and what your best estimate for the future.

Reliability services. If those are separated from transmission we'll ask for those. And, again, we're open to suggestions.

Some utilities actually list regulatory assets, that's a special expense, it's recoveries that they have, or the California Public Utilities Commission has approved for the specific utilities.

We're asking also for fixed transmission charges; we know those expire in 2007. Those are the amount that were used to finance the 10 percent rate reduction that small commercial customers and residential customers receive back in 1998.

We're also asking for DWR bond charges; those that finance -- funds that were used to finance the emergency purchases during the crisis. And, again, nuclear decommissioning estimates that you provide to the PUC every three years.

Public purpose programs charge and

revenues, cost includes the CARE program and RD&D programs. And some of the categories that we have not included, and again, we would like to see those.

Forms 1.b and 1.c, we're again asking for the allocations to the different customer classes in 1.b; and in 1.c allocations to rate schedules. We would like to see from the utilities specific method of allocation that you are proposing or that the PUC has already approved.

For some categories we have system average percent, the equal percent of marginal costs or some categories of revenues are allocated on an equal cents per kilowatt hour, like DWR contract revenues.

For instance, PG&E allocates revenues to this customer classes, and I guess they are different from Edison. But the residential class has actually five different rate schedules. So we would like to see the allocation done to the residential class plus the rate schedules E-1, EL-1 and so on.

Now, forms for municipal utilities and irrigation districts. In the past, actually the last IEPR, we used data that we collected from the EIAs forms 412, and also some data that we used, we collected from some financial statements, some financial reports that the munis post in their website. We have been a little more difficult for the last probably four years to acquire this kind of data.

We're asking for revenue requirements. Again, we actually mimic this categories from the IOUs which will not be as specific, which may not apply specifically to the municipal utilities and irrigation districts.

Form 2.a, we're asking for electricity by source and revenue requirements per category. You will have only one form 2.a for each muni and irrigation district. We ask that just for the whole utility.

Form 2.b, we are asking for electricity sales and revenue allocation to customer classes. And again, we would like the munis to consider only customer classes with a 10 percent or more of utility on their sales. I mean there are some very small customer classes that their sales are below 10 percent. We actually don't want those. We just want the ones at 10 percent or more.

Form 2.c, we are asking for electricity sales and revenue requirements by category. And, again, allocations to rate schedules. And only rate schedules with 10 percent or more of customer sales within the customer class.

In the form 2.a, for municipal utilities, we are asking for a utility's own generation revenue requirements; bilateral generation contracts that you may have; renewable, compliance for renewable portfolio standard and other goals; spot market purchases; transmission distribution. Again, (inaudible) that in the past has been critical for the munis. We would like to have those. And, again, we are asking for your suggestions.

And forms 2.b and 2.c, again allocation to customer classes with minimum 10 percent of utility total electricity sales, and allocation to rate schedules with minimum 10 percent customer class electricity sales.

Forms for energy service providers and community choice aggregation. Again, we have not estimated retail prices for these entities in the past. This is going to be the first time we're asking for revenue requirements for the categories that we listed in the forms, form 1.a and form 1.b -- I'm sorry, form 3.a and 3.b.

We don't have each ESP is unique; each community choice aggregator will be unique. So we are asking for your proposals.

Forms 3.a and 3.b, again, energy service providers might have generation contracted; estimation of spot market prices. They do have contracts with IOUs and municipal utilities to transmit the power, so they have to pay those charges to either the IOU or municipal utility. They also have some kind of an agreement with investor-owned utilities for distribution services. We'd like to have those estimates.

And that's all. Any questions?

MR. BAZZAZ: My name's Jafar Bazzaz; I'm representing Los Angeles Department of Water and Power. Before I make any comments I want to make sure that everyone understand the policy has been to fully cooperation with staff before, and that's what we intend to do.

But at the same time you should take in consideration what's physical for us, take in consideration the manpower we have right now after downsizing.

And efficiency that we like to see. Wonder is possible if you can put that slide back for municipal utilities?

I don't see the detail of the form here, but I looked at the detail at the form and if the type of the question you're asking is leading to my understanding, that you look at the municipal utility like the IOUs.

They don't look at the revenue requirement, as the IOUs (inaudible) revenue requirement. If your goal is at the end to have the rate you shouldn't put (inaudible), because all the information you're asking me to provide is not going to make it able for you to forecast a rate. A rate is not driven by revenue requirement. A rate is driven by a financial policy or bond covenant on a financial ratios.

So all this information that is going to cost a lot of time to provide, I don't know what the use of it. If you can explain it to me, I appreciate it.

MR. TAVARES: Yeah, and again, I mention before, that we actually had not collected this information directly from municipal utilities. And we tried to mimic, you know, revenue requirements from the investor-owned utilities and impose it into the munis.

I mentioned several times that we would like to, you know, have some suggestions from you, or receive some suggestions on how we can do it.

MR. BAZZAZ: My suggestion is if end goal is to have the rate, we can put a wide rate that we are using in our load forecast, and is going to be part of our assumption when we file the load forecast. We file all the assumption. And part of it is going to be what we have used for the price of electricity for each class of customer.

MR. TAVARES: If you going to provide me with the work papers on how you get the rate, and your assumptions behind it, I believe that that might be -- I mean we can talk it over, that might be acceptable.

But, again, our purpose is to see, you know, what your assumptions are versus what kind of a wholesale electricity price you used in the open market, you know, for your open purchases, if any. What kind of assumptions you have. And so that we might be able to provide different scenarios if the Commissioner ask for it.

MR. BAZZAZ: I can provide you with the financial plan that we have for forecast, that it's going to give you all the information about the net revenue we assume from wholesale activity; what's our forecast retail; what's our average rate is going to be; what's our O&M is going to be.

What's a lot of accounting issue is going to drive the rate. For example, you have the deferred revenue that is going to drive the rate in the future. That's a noncash item that's not going to affect any of our form that you ask.

MR. TAVARES: Well, again, as long as we are able to see the work papers and how you got to your price forecast, I think, you know, from the staff point of view, that will be acceptable. And we will talk to you, you know, about that.

PRESIDING MEMBER GEESMAN: You make projections in your official statement every time you sell bonds, though, don't you?

MR. BAZZAZ: No, we don't have the forecast in our -- we have the actual, we have the audited.

PRESIDING MEMBER GEESMAN: Yeah, but I --

MR. BAZZAZ: Every time you sell the bonds you have the audited for last quarter.

PRESIDING MEMBER GEESMAN: Right.

MR. BAZZAZ: Audited financial statement. However, we have the financial statement forecast for the next 15 years, that based on that we see what kind of rate increase we need in the future.

PRESIDING MEMBER GEESMAN: And you carry that out 15 years?

MR. BAZZAZ: We have that up to 2017.

PRESIDING MEMBER GEESMAN: And do you break that down by customer class?

MR. BAZZAZ: We have the ability to break it down to customer class.

PRESIDING MEMBER GEESMAN: Do you present similar type of information to the rating agencies before your bond issues?

MR. BAZZAZ: We provide the same type of information to rating agency, not to 2017, usually maybe ten years.

PRESIDING MEMBER GEESMAN: Okay. But you --

MR. BAZZAZ: They are not interested more than that.

PRESIDING MEMBER GEESMAN: Okay. It seems to me you have a wealth of potential data that would be relevant to the staff's interests. And it's not our intent to impose new or onerous requirements on you, but simply to gather access to the data that you do have.

MR. BAZZAZ: As I mentioned, the information available and needed take into consideration the confidentiality and other policy the Department has. We are going to provide.

PRESIDING MEMBER GEESMAN: And I certainly appreciate the cooperation that the Department has shown throughout this process.

MR. BAZZAZ: Thanks.

MR. PRETTO: Mike Pretto, again. Just a brief follow-on on the category of revenue requirements. In our budget forecast in the City of Santa Clara, we do have a five-year forecast of what you might call revenue requirements.

But that's not necessarily indicative of rates or rate requirements. For example, if I have out in the, say in the fourth or fifth year of this time horizon, indicate a potential shortfall, in other words a shortfall relative to incoming revenues, one of the options we have as we go through time is to figure out what kind of cost-cutting measures we might implement so that that indication of a shortfall doesn't come true.

So that revenue requirements, as you forecast them, don't immediately translate into rates. And that's one of our concerns, about how the data might be used.

MR. TAVARES: Well, again, I think everybody can do their best in estimating, you know. There's some assumptions behind it. And we will consider those assumptions.

MR. McLAUGHLIN: Bruce McLaughlin, California Municipal Utilities Association. We're here as an earpiece rather than a mouthpiece.

We do have what we have been presented as a staff proposal, new data collection forms, et cetera. So, as I bring this information back to our collective and diverse membership one of the things that would really be oil on the water, of course, is a more specific statutory reference to the ability of the CEC to collect this.

Also, we talked about the different forms and some of the different utilities have expressed their different type of information that they have. Commissioner Geesman just suggested, I think, in the Public Resources Code that any utility would only have to give the data that they possess, control or have the ability to acquire.

So, as we go through this process I would assume it's going to be public workshops, comments, et cetera, so we can reach a grand conclusion.

PRESIDING MEMBER GEESMAN: I think that 200 megawatt threshold is probably relevant to your members, as well.

MR. McLAUGHLIN: Right.

PRESIDING MEMBER GEESMAN: That's something I think ought to be kept uppermost in mind.

MR. McLAUGHLIN: And also yesterday we talked about LSEs and an LSE list. Now, I know with this integration of the PUC and the RAR proceeding, their definition, at least in the interim opinion, an LSE is an IOU, an ESP or a CCA. Of course, the muni utilities are neither of those.

And so if we could sort of just wrangle with that definition, and possibly get that list, I would appreciate it greatly.

Thank you very much.

PRESIDING MEMBER GEESMAN: You bet.

MR. TAVARES: Any more questions? Comments?

MS. TRELEVEN: Kathy Treleven, PG&E. This whole thing seems a little bit new and we're still wrangling with exactly the scope of it. I'm surprised to see the discussion of the revenue requirements as only an input, because essentially they were an output of our long-term plan, as well.

And there's some interesting things that you can do as you look at the different scenarios and the magnitudes of revenue requirements, how they change under different transmission scenarios, for example.

And I guess I could say that since Thursday's CPUC decision we're all looking forward to a better definition of how we will work through this process.

In terms of the data requests that we have in front of us for the next few months' exercise, the main concern that I am getting from internal folks -- well, there are two concerns. The first is confidentiality. And I'd like to hear a little bit more about whether that can be provided, and what the plans are. I apologize for not showing up a little earlier.

And secondly, there's a long-standing concern about accuracy once you get out past three or five years. There are probably something like 60 rate cases, or 60 different cases before the CPUC and the FERC that will determine our revenue requirements. So, one wonders how much you work through those different components and best guess efforts at where we'll stand when those cases are closed, compared to just taking a transmission and distribution revenue requirement and forecasting it through time at some sort of nominal growth rate.

Those are some of the initial perceptions that we've had at PG&E and we will look forward to sharpening up the process and figuring out how to comply with these requests. We see no problem with the numbers being in front of us, except for those two, confidentiality and precision concerns.

PRESIDING MEMBER GEESMAN: Let me give you an initial reaction to both, Kathy. On the confidentiality question Southern California Edison raised the same issue yesterday. And, at least as I understood their request, they suggested that we adopt the same approach and definitions currently utilized by the CPUC.

I explained that we can't do that; that we have a different statute and different regs that govern our approach to confidentiality. And that at least for the time being we are incapable of providing any advanced guidance beyond suggesting a careful scrutiny of our regs and our statute.

Now, that being said, we will sit down with our Executive Director, which is where the actual authority for confidentiality determinations resides, and determine if he is able to issue some advanced guidance as to the parameters that he believes would be relevant and consistent with our regs. And if we're able to provide that, we will.

As it relates to precision or accuracy, I think those are very well founded concerns. And I think one of the real dilemmas that we face, there was a lot of discussion yesterday from people that were relative old-timers in the room, saying that they hadn't done this since 1996.

And obviously capabilities, both within

state government and within the utilities, has atrophied a fair amount since 1996. And I think we need to recognize that.

I have to say with a fair amount of embarrassment I haven't done this since 1982. And the approach, frankly, that we took in 1982 was a lot more detailed, and a lot more rigorous, and I think had a lot more at stake, or at least we felt that it did, than what had evolved by 1996.

For better or for worse, the state seems to have moved a fair direction toward integrated resource planning and a state-supervised or -sanctioned utility procurement system, which does, in fact, call for advanced guidance consistent with AB-57 in the procurement process. And which calls for some fairly long-term decisions; decisions with at least a ten-year horizon, and in some instances, in the RPS program, even longer horizons than that.

So we all face a struggle to try and make those decisions which the state will be called upon to provide its stamp of approval for. We all face the dilemma of trying to make those decisions as well informed and based on as much accurate information as possible.

I think we ought to be honest about ranges of assumptions and caveats that need to be made. But I think in the final analysis what's expected of state government and of your industry is to arrive at some consensus choices, and a commonsense approach to making some of these choices.

MS. TRELEVEN: Thank you. I agree that the tools have atrophied and the questions have gotten harder. And we look forward to setting up a process with you and the CPUC and ourselves to move forward.

PRESIDING MEMBER GEESMAN: Thank you.

MR. BASS: Good morning, Commissioners. My name is Greg Bass and I'm here representing ARM, the Alliance for Retail Energy Markets. And I'm a member. I work for an ESP that is a member of ARM.

I'd like to thank the Commission and the staff for making this workshop available and allowing the different market participants to come in and to offer their different takes on this particular item.

In general, ARM supports not only the policy, but also the process that's evolving here.

And as I mentioned yesterday, one of the items that is important to our members that I've also heard from other market participants is confidentiality.

And my assumption here is that we'll file, for the September 30th we'll file some written comments on that particular subject.

I have some detailed questions, actually, regarding form 3 that I would like to ask.

On form 3.a you've broken out the generation into different categories. And my members would like to know exactly what is the difference between spot and a bilateral contract. And maybe, especially as you go forward into the further years, our definition of spot is something that occurs that day. And so we wouldn't know how much spot we would have as we go forward. Spot is usually done to just kind of fill in.

So I'm wondering if maybe -- one of my members was asking if spot and bilateral couldn't be combined, because in the long term they're essentially the same thing.

MR. TAVARES: Well, I think you probably could combine those. The reason we separated them is because actually the investor-owned utilities separate their bilateral contracts that they do have. And those give a little bit more certainty as to what the prices are going to be in the future.

And the spot market prices do not. Those are forecasted based on some assumptions, and also using some different models.

For instance, we hear the Commission in the past have used a marketing model to forecast market prices. And that's why we separated it.

But I mean, if those are the same to your members, again, that's fine, so long as you provide us with the information and the work papers.

MR. BASS: One of the themes at yesterday's meeting was that the answer to a lot of my questions was to use the best information available that the particular supplier had. And then to just document what the assumptions were.

MR. TAVARES: Correct.

MR. BASS: On these forms can I work under essentially that same model?

MR. TAVARES: Exactly the same model, yeah.

MR. BASS: Okay.

MR. TAVARES: We're asking for the best you can.

MR. GIBBONS: Okay, that helps me with answering some of the questions I have here. Now I don't need to ask you.

MR. TAVARES: Okay. Yeah, we're asking for the best you can and we will do the best we can.

MR. BASS: On the form it says megawatt hours and revenues. The general question here is under revenues, is that truly revenues that you're asking for? Or are you asking for our costs?

MR. TAVARES: Well, actually the revenues for the -- the ESP is actually the cost. The way we use revenue requirements is because, for instance, in the case of the investor-owned utilities, those are revenues that the California Public Utilities Commission approves. And those revenues will be collected from the customers.

But, in this instance they are the same, so you get (inaudible) costs.

MR. BASS: We had some trouble understanding on page 2 of form 3.a this breakout of transmission distribution and other services.

And then your presentation here was very helpful. Let me ask some followup questions to this so that I'm making sure that I understand this right.

So, when there is this line entitled transmission, are these the costs that we expect to receive from the Cal-ISO?

MR. TAVARES: Yes. And also some ESPs, I assume, they don't own the transmission lines. And there's some charges coming from either the investor-owned utilities or a municipal utility that what you have an agreement with.

I understand that ESPs, in order to transmit and distribute the power, since they don't have the lines, they have to contract with IOUs or a muni.

MR. BASS: And then under distribution, we have there distribution services. That one's a little trickier to ask this question, because the distribution services are paid for by the customers directly to the particular IOU.

There is a very rare circumstance in which the billing option is what's called consolidated billing supplier, consolidated billing -- or here in California called ESP consolidated billing.

In that particular case, then, the distribution services would be paid for by the supplier, the ESP. Is this the kind of assumptions and documentation that you would want to see as we list out what we think the distribution services would be?

MR. TAVARES: Absolutely. You can tell us whether this is paid actually by the customer directly to the either IOU or the muni, or to you. Depends, you know, what the ESP contract is for.

MR. BASS: And then other services. Would you please elaborate on that? What sort of items are you looking for under other services?

MR. TAVARES: Actually, to tell you the truth, I don't have anything in mind. Each and every muni, each and every IOU, each and every ESP, community choice aggregator might have something else, some category that we didn't listed.

And in those categories are important to be included so that we have a more accurate estimate of the rates. We would like to have those. But, again, we don't have anything in mind right now.

MR. BASS: Okay, so to paraphrase, it

would be a -- it's essentially a catch-all category in order to --

MR. TAVARES: Catch-all category.

MR. BASS: -- accurately reflect what we, you know, to kind of accurately reflect the total costs that we would forecast?

MR. TAVARES: Yes.

MR. BASS: Okay. And then my next set of questions is in reference to form 3.b. If I understand 3.b correctly, you're going to want this form filled out by customer class?

MR. TAVARES: Right. And I understand that some ESPs might not even have allocations to customer classes, but probably they do have estimates of rates for a different type of customer, whether it is commercial customer or industrial customer.

So, in that case, you don't have those allocations, what we would like to see how you estimate rates for the different type of customers.

MR. BASS: Okay, that's helpful. So then to make sure that I understand this correctly, if the ESPs were to supply this by the way they chunk up their -- well, that's going to -- they way they view or parcel out the different customer classes, however that's defined, then that would be okay?

MR. TAVARES: That's fine.

MR. BASS: Okay.

MR. TAVARES: As long as you provide the work papers, --

MR. BASS: Okay.

MR. TAVARES: -- then that would be fine. From the staff point of view, again.

MR. BASS: Okay. What if we were to provide it by utility rather than by customer class? This was the kind of question I was debating whether or not to ask. But since I'm here.

If we provided these forms by utility, so in other words, these would be our estimates going forward in the different utilities' jurisdictions. Is that at too high a level? Or is that off the mark?

MR. TAVARES: No, that's fine. I mean are you talking about providing those rates for different territories, like PG&E's territory or Edison's territory?

MR. BASS: Yes.

MR. TAVARES: Actually Mike has some comments.

DR. JASKE: I have a different answer. That's not fine.

(Laughter.)

DR. JASKE: And the reason that's not fine is --

MR. BASS: Okay.

DR. JASKE: -- that what we're trying to do with these retail rate projections, from all LSEs, irrespective of category, is understand the rate in front of certain, for economically defined groups of customers, --

MR. BASS: Okay.

DR. JASKE: -- and that is particularly important in the context of the policy preferences that the agencies have put forth in IEPR and procurement decisions, et cetera, emphasizing an efficiency demand response distributed generation. Unless we have some sense of what retail customers are paying, you know, in these some kind of broad classes, it's very difficulty to understand what the pocketbook perspective of those customers is to partake of those kinds of demand side preferences.

MR. BASS: Okay. All right, thank you.

(Pause.)

MR. BASS: Okay. I appreciate you taking the time and answering my questions very much. And look forward to filing our comments in the next week or so. Thank you, again. And thank you, Commissioners.

PRESIDING MEMBER GEESMAN: Thank you.

MR. ALVAREZ: Manuel Alvarez, Southern California Edison. You heard from us earlier this morning and yesterday, also. And I guess I wanted to bring up one point that Commissioner Geesman brought up, this issue of confidentiality.

I was hoping to put a finer point on the discussion yesterday. We're all aware of the differences between the confidentiality requirements.

And I guess part of my comment yesterday on my faith-based policy proposal was hopefully that we would come to a resolution within the state on what the confidentiality standards are and availability. But I know the difficulties there.

PRESIDING MEMBER GEESMAN: I think this Commission would like that very much. I'm not certain that you would be satisfied with the way it was resolved, but I think that this Commission very clearly sees a need for that type of resolution.

MR. ALVAREZ: It's a worthy discussion for having. The other issue I just wanted to make clear that in the staff's request for providing the best information that we have available and providing it from other sources.

When you referred to providing you the assumptions that go forward in some category of projections, if we know a certain information in terms of its current value, but the assumption is just to hold that constant, will that satisfy you going forward, since we have no other basis by which to project a category?

MR. TAVARES: Well, again, it's up to the utility to make that judgment. I mean if you assume that this is going to carry forward, we can take your assumptions.

We, at the staff level, might have different information, and might be able to change those assumptions, ourselves.

MR. ALVAREZ: Okay, that's what I understood. I guess what I would suggest to the

Committee, perhaps this is something that further down the road, as you complete this process of data collection and the next set of forms and information you're going to be requesting is that the Committee might want to consider establishing a working group of various individuals in the various companies and organizations that can sit down and actually go through some of those details with the staff. And then bring that information forward to you. And where there's information of disagreements or controversy, those could be brought forward for your condition.

PRESIDING MEMBER GEESMAN: I think that's a good idea. I guess the perspective that I would suggest that you take is the same type of information that you would present to a large customer that might be considering signing a contract with an ESP, or a municipality that might be considering setting up a community choice aggregation program, or perhaps municipalizing its utility services.

Those types of entities are going to call on you, as you well know, for some longer term projections. And those are projections in that context which utility companies have been willing to make.

And I think people need to recognize that they represent your best estimates at the time and are subject to the underlying assumptions that you use in making those projections.

But, rather than simply holding a value constant when you don't have assurance or certainty as to what the change will be, what the staff is asking you for is to make your best estimate.

MR. ALVAREZ: We understand that. Thank you.

PRESIDING MEMBER GEESMAN: Thanks.

MR. TAVARES: Any more questions?

MR. KENNEDY: If there are no other questions on the detailed forms and instructions, I think we can move towards wrapping this up, actually.

And if anyone has any sort of final closing comments that they would care to make this would be a good opportunity for that.

One thing I would like to remind folks is that we have asked for any written comments coming out of this workshop and yesterday's workshop to be filed by September 30th. So we would appreciate it if you can make that filing deadline.

We definitely appreciate all of the participation that we have had yesterday and today. And, once again, thanks for putting up with a bit of chaos yesterday.

Do the Commissioners have anything that they want to say before we close?

Okay. Well, thank you all very much. I think it's been a very productive meeting. Thank you.

(Whereupon, 11:00 a.m., the Committee Workshop was adjourned.)

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CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Committee Workshop; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said workshop, nor in any way interested in outcome of said workshop.

IN WITNESS WHEREOF, I have hereunto set my hand this 1st day of October, 2004.